

**STATE EMPLOYEES' RETIREMENT SYSTEM  
OF ILLINOIS**

**A PENSION TRUST FUND  
OF THE STATE OF ILLINOIS**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 1999**

STATE EMPLOYEES'  
RETIREMENT SYSTEM  
OF ILLINOIS

2101 South Veterans Parkway  
P.O. Box 19255  
Springfield, Illinois 62794 - 9255

Prepared by the  
Accounting Division

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## INTRODUCTORY SECTION

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- Letter of Transmittal
- Administration, Board of Trustees and Administrative Staff
- Certificate of Achievement for Excellence in Financial Reporting



STATE  
RETIREMENT  
SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

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December 1, 1999

The Board of Trustees and Members  
State Employees' Retirement System of Illinois  
Springfield, IL 62794

Dear Board and Members:

The comprehensive annual financial report of the State Employees' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 1999 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included. The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization and the Certificate of Achievement for Excellence in Financial Reporting;
2. The Financial Section which contains the report of the Independent Auditors, the financial statements of the System, and certain required and other supplementary financial information;
3. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
4. The Actuarial Section which contains an Actuary's Certification Letter and the results of the annual actuarial valuation;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

Generally accepted accounting principles require that the financial reporting entity include: (1) the primary government; (2) organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report. Although the State Employees' Retirement System, Judges' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the State Employees' Retirement System do not include plan net asset information nor the changes in plan net assets of the General Assembly Retirement System or Judges' Retirement System.

## PLAN HISTORY AND SERVICES PROVIDED

The System is the administrator of a single-employer public employee retirement system established to provide pension benefits for State of Illinois employees. The System also administers widows and survivors benefits as well as the state's occupational and non-occupational disability programs.

The System was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, net assets of the System amounted to \$1,255,778. The fair value of plan net assets at the end of the fiscal year June 30, 1999 are approximately \$8.0 billion, and there are 79,502 active members.

## ADDITIONS TO PLAN NET ASSETS

The collection of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These revenue sources totaled \$1,383.2 million during the fiscal year ending June 30, 1999, which is a slight decrease from revenue reported for fiscal year 1998, shown as follows:

	1999 (Millions)	1998 (Millions)	Increase/(Decrease)	
			(Millions)	(Percentage)
Contributions:				
Employees	\$ 159.6	\$ 155.9	\$ 3.7	2.4%
Employer	315.5	200.8	114.7	57.1
Investments	908.1	1,080.2	(172.1)	(15.9)
	<u>\$1,383.2</u>	<u>\$ 1,436.9</u>	<u>\$ (53.7)</u>	<u>(3.7)%</u>

As indicated in the above schedule, approximately 66% of the total revenue was attributable to investment income.

## DEDUCTIONS FROM PLAN NET ASSETS

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for 1999 and 1998 are shown for comparison purposes.

	1999 (Millions)	1998 (Millions)	Increase/(Decrease)	
			(Millions)	(Percentage)
Benefits:				
Retirement annuities	\$ 363.6	\$ 322.7	\$ 40.9	12.7%
Survivors' annuities	40.5	38.2	2.3	6.0
Disability benefits	26.8	24.7	2.1	8.5
Lump-sum death benefits	9.9	13.8	(3.9)	(28.3)
	<u>\$ 440.8</u>	<u>\$ 399.4</u>	<u>\$ 41.4</u>	<u>10.4%</u>
Refunds (including Transfers)	14.1	14.8	(.7)	(4.7)
Administrative expenses	6.4	6.2	.2	3.2
	<u>\$ 461.3</u>	<u>\$ 420.4</u>	<u>\$ 40.9</u>	<u>9.7%</u>

The increase is primarily due to the effect of a benefit change which was signed into law and took effect January 1, 1998. FY99 was the first full year of the benefit increase.

## INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes, using the "prudent person rule". This rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. The ISBI maintains a wide diversification of investments within this fund which serves to reduce overall risk and increase returns.

Income from investments has, over the years, generally been a significant share of the total revenue of the System. Net investment income, combined with the net appreciation of fair value of investments, amounted to \$908.1 million during fiscal year 1999, a decrease of \$172.1 million from fiscal year 1998. Income from investments represents 66% of total fund revenue. The Illinois State Board of Investment had an 12.9% rate of return on market values for the year ended June 30, 1999.

A detailed discussion of investment performance and strategies is provided in the Investment Section. Information regarding investment professionals providing services to the ISBI can be found in the separately issued ISBI report. To receive a copy of the ISBI annual financial report, please refer to the address contained in the Investment Section.

## FUNDING

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments. The greater the level of funding, the larger the ratio of accumulated assets to the actuarial accrued liability and the greater the level of investment potential.

Senate Bill 533, which was signed into law by former Governor Edgar on August 22, 1994, as Public Act 88-0593, enacted a new funding plan for the System. The financing objective of this funding plan requires that state contributions be paid to the System so that by the end of fiscal year 2045, the ratio of accumulated assets to the actuarial accrued liability will be 90%. For fiscal years 2011 through 2045, the required state contributions are to be computed as a level percentage of participant payroll. For those fiscal years up through 2010, the required state contributions are to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state is contributing at the required level contribution rate to achieve the financing objective by the end of fiscal year 2045. In addition, the funding legislation also provided for the establishment of a continuing appropriation of the required state contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 1999, amounted to \$9.998 billion. The actuarial value of assets (at fair value) amounted to \$7.986 billion as of the same date.

A detailed discussion of funding is provided in the Actuarial Section of this report.

## MAJOR EVENTS/INITIATIVES

During the Fiscal Year 1999, the System expanded its computer security code from three digits to four digits, enhanced certain billing statements and reviewed various computer systems for Y2K compliance.